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HOUSE OF REPRESENTATIVES
REPORT
No. 97-775

COMPLETED

RESERVE REQUIREMENTS REFORM ACT OF 1982

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AUGUST 19, 1982.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. ST GERMAIN, from the Committee on Banking, Finance and Urban Affairs, submitted the following

REPORT

[To accompany H.R. 6222]

[Including cost estimate of the Congressional Budget Office]

The Committee on Banking, Finance and Urban Affairs, to whom was referred the bill (H.R. 6222) to amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

That this Act may be cited as the "Reserve Requirements Reform Act of 1982".

SEC. 2. (a) Section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)) is amended by adding at the end thereof the following:

"(11) ADDITIONAL EXEMPTIONS.—(A)(i) Notwithstanding the reserve requirement ratios established under paragraphs (2) and (5) of this subsection, a reserve ratio of zero per centum shall apply to any combination of reservable liabilities, which do not exceed $2,000,000 (as adjusted under subparagraph (B)), of each depository institution.

"(ii) Each depository institution may designate, in accordance with such rules and regulations as the Board shall prescribe, the types and amounts of reservable liabilities to which the reserve ratio of zero per centum shall apply, except that transaction accounts which are designated to be subject to a reserve ratio of zero per centum shall be accounts which would otherwise be subject to a reserve ratio of 3 per centum under paragraph (2).

"(iii) The Board shall minimize the reporting necessary to determine whether depository institutions have total reservable liabilities of less than $2,000,000 (as adjusted under subparagraph (B)). Consistent with the Board's responsibility to monitor and control monetary and credit aggregates, depository institutions which have reserve requirements under this subsection equal to zero per centum shall be subject to less overall reporting requirements than depository institutions which have a reserve requirement under this subsection that exceeds zero per centum.

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"(B)(i) Beginning in 1982, not later than December 31 of each year, the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount specified in subparagraph (A), as previously adjusted under this subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total reservable liabilities of all depository institutions.

"(ii) The increase in total reservable liabilities shall be determined by subtracting the amount of total reservable liabilities on June 30 of the preceding calendar year from the amount of total reservable liabilities on June 30 of the calendar year involved. In the case of any such twelve-month period in which there has been a decrease in the total reservable liabilities of all depository institutions, no adjustment shall be made. A decrease in total reservable liabilities shall be determined liabilities on June 30 of the calendar year involved from the amount of total reservable liabilities on June 30 of the previous calendar year.".

(b) Section 19(b)(4)(A)(iv) of the Federal Reserve Act (12 U.S.C. 461(b)(4)(A)(iv)) is amended by inserting "except as provided in paragraph (11)," after "requirement is imposed,".

(c) Section 19(b)(1) of the Federal Reserve Act (12 U.S.C. 461(b)(1)) is amended by redesignating subparagraph (E) as subparagraph (F) and by inserting after subparagraph (D) the following:

"(E) The term 'reservable liabilities' means transaction accounts, nonpersonal time deposits, and all net balances, loans, assets, and obligations which are, or may be, subject to reserve requirements under paragraph (5).".

Need for the Legislation

The Monetary Control Act of 1980 requires all depository institutions to maintain non-interest bearing reserves with the Federal Reserve. Since the implementation of the Act the Federal Reserve has, by administrative action, exempted small institutions—those with less than $2 million in total deposits—from reserve requirements. This exemption expires on December 31, 1982, and the Federal Reserve has said it will not extend it. This legislation would replace the exemption by providing that reservable deposits up to $2 million held by any depository institution are not subject to reserve requirements.

If this legislation is not adopted institutions now exempted would have to maintain reserves pursuant to the schedule established in the Monetary Control Act, submit reports, and otherwise incur expenses for which the demonstrable benefit is minimal. 17,755 depository institutions, or approximately 44 percent of all such institutions, would be immediately affected by this scheduled expansion of reserve requirements. Their breakdown is as follows:

Type of institution	Number	Percent of all institutions of this type
Commercial banks	307	2.1
Savings and loan associations	415	9.8
Credit unions	17,033	82.9
Total institutions affected	17,755	[1] 44.0

[1] There are an estimated 40,388 depository institutions at present.

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History and Purpose of the Legislation

HISTORY

The Monetary Control Act of 1980 subjected all depository institutions that maintain transaction (checking) accounts or non-personal time deposits to reserve requirements. There is no provision in the Act to permanently exempt any institution from the maintenance of reserves or the filing of reports.

During the early stages of the implementation of the Act, however, the Federal Reserve expressed a concern that subjecting a large number of institutions, many of them small, to new reporting and reserve maintenance requirements all at once could cause significant operational difficulties and interfere with the orderly implementation of the Act. The Board, therefore, granted a six-month deferral of reporting and reserve requirements to depository institutions with total deposits of less than $2 million as of December 31, 1979. The deferral did not apply to Member banks who were already subject to reserve and reporting requirements. The deferral was subsequently extended on three occasions, with the last deferral authorized on April 28, 1982, and extending until December 31, 1982. Further deferrals are not anticipated because the Federal Reserve Board believes that such further extensions would be inappropriate under the law without new legislative authority.

PURPOSE OF THE BILL

H.R. 6222, as amended, would exempt from reserve requirements any combination, not exceeding $2 million, in deposits subject to reserves. An indexing provision adjusts the exemption level so that the current ratio of exempt deposits to reservable deposits is maintained with the growth of reservable deposits. The indexing provision takes effect December 31, 1982, in accordance to the formula established in the bill.

The bill would apply to all depository institutions whenever or not they are Members of the Federal Reserve System. It would exempt from reserve requirements the first $2 million of reservable deposits of any depository institution. In practice, this would exempt almost all depository institutions with total deposits of approximately $5 million or less from requirements to maintain reserves.

Provisions affecting certain reporting requirements are specifically stated in the bill, thereby making explicit the intention of the Committee that the burden of submitting reports is removed or substantially diminished along with the removal of the burden of maintaining reserves. Consistent with the Federal Reserve System's responsibility to monitor and control money and credit aggregates, institutions which have a zero reserve requirement shall be subject to less overall reporting requirements than other institutions. This provision does not eliminate the ability of the Federal Reserve to require peri-

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odic or special reports designed to assure compliance with the Monetary Control Act and to obtain information to monitor and control the monetary and credit aggregates. It should be noted that while most institutions with $2 million or less of reservable liabilities will have total deposits of approximately $5 million, it is possible for a much larger institution to have only $2 million or less in reservable liabilities. The reporting requirements for such an institution would have to be more stringent.

Impact of the Bill

The bill is not expected to have any impact on the ability of the Federal Reserve to control monetary policy. The Federal Reserve has, however, indicated in testimony before the Subcommittee on Domestic Monetary Policy that any increase in the exemption level, above that provided in the bill, would have a detrimental impact on their ability to control the money supply. Based on this testimony, it was determined that an exemption formula based on levels of reservable liabilities (i.e., transaction accounts and non-personal time deposits) and applicable to all depository institutions would be the most appropriate, and that a $2 million exemption level for reservable liabilities was the maximum acceptable. Alternatives proposing an exemption based on asset size of an institution were rejected because of concern that institutions just passing over the threshold of the exempt institution size would confront a very high marginal reserve requirement. The Committee believes that this would be unfair and inequitable because institutions just below the cutoff would be completely exempt from reserve requirements while slightly larger institutions just above the cutoff would be subject to reserve requirements on all of their reservable deposits. Under the formula used in this bill, an institution with reservable deposits above the exemption level would be subject to reserves only on that amount above the exemption level, not on the total amount of reservable deposits.

At the exemption level contained in the bill, the reduction in reserve balances would be $290 million in 1982 and $806 million in 1988 when the phasing-in schedule contained in the Monetary Control Act is fully implemented.

Additionally, while there is no direct budgetary impact, the income earned by the Federal Reserve and turned over to the Treasury from bank reserves will be diminished by this legislation. The lost income is expected to be $24 milion in 1982 and $66 million in 1988 when the reserve schedule is fully phased in.

The number of institutions affected by this legislation are:

Type of institution	Number affected	Percent affected of all institutions of this type
Commercial banks	1,526	10.4
Savings and loan associations	2,271	53.4
Mutual savings banks	46	10.5
Credit unions	19,988	97.3
Total	23,831	[1] 59.0

[1] There are an estimated 40,388 depository institutions at present.

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Implementation Considerations

The provisions establishing an exemption for the first $2 million of reservable liabilities takes effect upon enactment of the legislation. The importance, however, of accurate measurement of required reserves for monetary control dictates that the Federal Reserve System and its Board of Governors be given a reasonable period of transition to effect and implement this exemption. It is assumed that such a period need not exceed 60 days. If more time is required, it is expected that the Board will so advise the Committee and give its reasons. In any event, the Committee does not believe that a delay in implementation would be the basis of any claims for payment to a depository institution by the Federal Reserve for lost opportunities, direct or consequential costs.

The actual mechanism for determining reserves, the Committee is advised, is one where reserve-requirement calculations take place at the Federal Reserve District Banks and the information is then provided to the depository institutions and to the Federal Reserve Board for monetary policy purposes. Given the large number of depository institutions and calculations involved, the system of reserve calculations is largely automated. In order to exempt the first $2 million of reservable liabilities, the computer programs involved in this system will have to be modified. Since it is essential that reserve requirements be made accurately, some period of time is necessary to assure that each of the twelve Federal Reserve Banks have made the required changes and that their programs are working properly.

Statements Made in Accordance With House Rules

In accordance with clauses 2(l)(2)(B), 2(l)(3), and 2(l)(4) of rule XI of the Rules of the House of Representatives, the following statements are made:

Committee Vote (Rule XI, Clause 2(l)(2)(B))

Forty-three votes were cast for reporting favorably 0 votes were cast against reporting bill.

The following committee members cast votes for reporting the bill: Representatives St Germain, Reuss (by proxy), Gonzalez (by proxy), Minish (by proxy), Annunzio, Mitchell, Fauntroy, Blanchard (by proxy), Hubbard, LaFalce (by proxy), Evans of Indiana, D'Amours, Lundine, Oakar, Mattox (by proxy), Vento (by proxy), Barnard, Garcia (by proxy), Lowry, Schumer, Frank (by proxy), Patman, W. Coyne, Hoyer (by proxy), Stanton, Wylie, McKinney (by proxy), Hansen (by proxy), Leach (by proxy), Evans of Delaware, Paul, Bethune, Shumway, Parris, Weber, McCollum, Carman (by proxy), Wortley, Roukema, Lowery (by proxy), J. Coyne (by proxy), Bereuter, and Dreier (by proxy).

The following committee members were absent: Representatives Neal and Patterson.

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Oversight Findings (Rule XI, Clause 2(l)(3)(A), And Rule X Clause (2)(b)(1)

The Subcommittee on Domestic Monetary Policy held a hearing on June 16, 1982 on this legislation. The Subcommittee heard testimony from the Honorable Preston Martin, Vice Chairman of the Board of Governors of the Federal Reserve System and from public witnesses. The Committee finds that this legislation is necessary to extend and amend the current exemption from reserve requirements now provided by regulation due to expire in December of this year.

Cost Estimate of the Congressional Budget Office Pursuant to Section 403 of the Congressional Budget Act of 1974

(RULE XI, CLAUSE 2(l)(3)(C))

The Congressional Budget Office has submitted the following report:

U.S. Congress,
Congressional Budget Office,
Washington, D.C., August 13, 1982.

Hon. Fernand J. St Germain,
Chairman, Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, Rayburn House Office Building, Washington, D.C.

Dear Mr. Chairman: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed H.R. 6222, the Reserve Requirements Reform Act of 1982, as ordered reported by the House Committee on Banking, Finance and Urban Affairs, August 10, 1982.

H.R. 6222 would exempt from the reserve requirements of the Federal Reserve System the first $2 million of reservable liabilities of any depository institution. An indexing provision would adjust the exemption level beginning on December 31, 1982.

While the Monetary Control Act of 1980 required that all depository institutions maintain reserves, the Board of Govenors of the Federal Reserve System has granted several deferrals to these requirements to nonmember depository institutions with total deposits of less than $2 million. The current deferral is scheduled to expire December 31, 1982, and renewal is not anticipated by the Federal Reserve Board. It is expected that if H.R. 6222 were enacted, the Federal Reserve System would avoid approximately $1 million in administrative costs required to reprogram and track the additional reserve requirements of the institutions currently exempt from such requirements. This would be offset by an estimated $100,000 in expenses to implement H.R. 6222, resulting in a net savings of approximately $900,000 in fiscal year 1983, and somewhat less in each fiscal year thereafter.

By exempting the first $2 million of reservable liabilities, the bill would reduce the reserve balances maintained at the Federal Reserve, thereby decreasing its earned income, the excess of which is paid into the U.S. Treasury. It is assumed that the depository institutions would invest these funds, however, and pay taxes on the earnings that result, thus partially offsetting the reduced payment to Treasury made by the

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Federal Reserve System. Assuming the current tax rate structure, it is estimated that the net revenue loss to the Treasury would be approximately $30 million in fiscal year 1983, increasing to approximately $33 million by fiscal year 1987.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

RAYMOND C. SCHEPPACH,
(For Alice M. Rivlin, Director).

INFLATION IMPACT STATEMENT (RULE XI, CLAUSE 2(l)(4))

This legislation is not expected to have any inflationary impact. Reductions in reserve requirements would cause monetary growth to accelerate if not offset. However, the Federal Reserve has ample powers to prevent any unwanted expansion of the money supply from occurring as a direct result of reducing reserve requirements. The Committee expects the Federal Reserve to use its open market powers to keep money growth from accelerating as a result of reducing reserve requirements.

SECTION-BY-SECTION ANALYSIS

H.R. 6222, a bill to amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions.

Section 1:

Provides a short title so that the Act may be cited as the "Reserve Requirements Reform Act of 1982."

Section 2:

Amends Section 19(b) of the Federal Reserve Act [12 U.S.C. 461(b)] by adding an additional exemption from the reserve requirements imposed by Section 19(b) as it was amended by Section 103 (Reserve Requirements) of the Monetary Control Act of 1980.

The exemption provided in this section would impose a reserve ratio of zero per centum to any combination, which does not in total exceed $2 million (as may subsequently be adjusted by the indexing provisions in this section), of transaction accounts, non-personal time deposits, and balances and assets described in paragraph (5) of each depository institution.

Paragraph (A)(ii) authorizes depository institutions to designate, within guidelines set by the Board, the types and amounts of liabilities to which it wishes the exemption to apply provided that the accounts designated are subject to a reserve ratio of 3 percent as provided in paragraph (2).

Paragraph (A)(iii) makes explicit the intention of the Committee to reduce the burden of reporting requirements along with the reduction of reserve requirements. This language does not eliminate the ability of the Federal Reserve to require periodic or special reports designed to assure compliance with the Monetary Control Act and to obtain information to monitor and control the monetary and credit aggregates. The language of this section does, however, clearly

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mandate that the Federal Reserve must minimize reporting and that institutions which have a reserve requirement of zero shall be subject to less overall reporting requirements than others.

Paragraph (B)(i) indexes the amount exempted starting December 31, 1982, by multiplying such dollar amount exempted by 80 percent of the percentage increase in reservable liabilities for all depository institutions.

Paragraph (B)(ii) establishes the formula by which reservable liabilities shall be determined. If there is no increase or if there is a decrease, it provides that no adjustments in the amount exempted shall be made.

Changes in Existing Law Made by the Bill, As Reported

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

Section 19 of the Federal Reserve Act

Sec. 19. (a) * * *

(b) Reserve Requirements.—

(1) Definitions.—The following definitions and rules apply to this subsection, subsection (c), section 11A, the first paragraph of section 13, and the second, thirteenth, and fourteenth paragraphs of section 16:

(A) * * *

* * * * * * *

(*E*) *The term "reservable liabilities means transaction accounts, nonpersonal time deposits, and all net balances, loans, assets, and obligations which are, or may be subject to reserve requirements under paragraph (5).*

[(E)] (*F*) In order to prevent evasions of the reserve requirements imposed by this subsection, after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board, the Board of Governors of the Federal Reserve System is authorized to determine, by regulation or order, that an account or deposit is a transaction account if such account or deposit may be used to provide funds directly or indirectly for the purpose of making payments or transfers to third persons or others.

* * * * * * *

(4) Supplemental reserves.—(A) The Board may, upon the affirmative vote of not less than 5 members, impose a supplemental reserve requirement on every depository institution of not more than 4 per centum of its total transaction accounts. Such supplemental reserve requirement may be imposed only if—

(i) the sole purpose of such requirement is to increase the amount of reserves maintained to a level essential for the conduct of monetary policy;

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(ii) such requirement is not imposed for the purpose of reducing the cost burdens resulting from the imposition of the reserve requirements pursuant to paragraph (2);

(iii) such requirement is not imposed for the purpose of increasing the amount of balances needed for clearing purposes; and

(iv) on the date on which the supplemental reserve requirement is imposed, *except is provided in paragraph (11)*, the total amount of reserves required pursuant to paragraph (2) is not less than the amount of reserves that would be required if the initial ratios specified in paragraph (2) were in effect.

(11) ADDITIONAL EXEMPTIONS.—(A)(i) Notwithstanding the reserve requirement ratios established under paragraphs (2) and (5) of this subsection, a reserve ratio of zero per centum shall apply to any combination of reservable liabilities, which do not exceed $2,000,000 (as adjusted under subparagraph (B)), of each depository institution.

(ii) Each depository institution may designate, in accordance with such rules and regulations as the Board shall prescribe, the types and amounts of reservable liabilities to which the reserve ratio of zero per centum shall apply, except that transaction accounts which are designated to be subject to a reserve ratio of zero per centum shall be accounts which would otherwise be subject to a reserve ratio of 3 per centum under paragraph (2).

(iii) The Board shall minimize the reporting necessary to determine whether depository institutions have total reservable liabilities of less than $2,000,000 (as adjusted under subparagraph (B)). Consistent with the Board's responsibility to monitor and control monetary and credit aggregates, depository institutions which have reserve requirements under this subsection equal to zero per centum shall be subject to less overall reporting requirements than depository institutions which have a reserve requirement under this subsection that exceeds zero per centum.

(B)(i) Beginning in 1982, not later than December 31 of each year, the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount specified in subparagraph (A), as previously adjusted under this subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total reservable liabilities of all depository institutions.

(ii) The increase in total reservable liabilities shall be determined by subtracting the amount of total reservable liabilities on June 30 of the preceding calendar year from the amount of total reservable liabilities on June 30 of the calendar year involved. In the case of any such twelve-month period in which there has been a decrease in the total reservable liabilities of all depository institutions, no adjustment shall be made. A decrease in total reservable liabilities shall be determined by subtracting the amount of total reservable liabilities on June 30 of the calendar year involved from the amount of total reservable liabilities on June 30 of the previous calendar year.

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